2000

Sherritt International Corporation

annual report

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CORPORATE INFORMATION

Sherritt International Corporation operates in Canada, the Republic of Cuba and internationally. Sherritt International owns a 50% indirect interest in a vertically-integrated commodity nickel/cobalt metals business. The Corporation owns assets which are operated to provide for some of the input requirements of the Metals refinery and which also produce fertilizer. The Corporation explores for, develops and produces oil and natural gas reserves worldwide. In addition, the Corporation has investments in power-generation, communications, soybean processing, tourism and agriculture in Cuba.

Sherritt International Corporation's restricted voting shares and convertible debentures trade under the symbols S and S.DB, respectively on The Toronto Stock Exchange.

Annual Meeting of Shareholders
The annual meeting of shareholders of Sherritt International Corporation will be held in the North Lobby of Roy Thomson Hall, 60 Simcoe Street, Toronto, Ontario on Thursday, May 31, 2001 at 10:00 a.m.

Highlights

- Sherritt International achieved record net earnings of $115.6 million or $1.38 per share
- Metals operating earnings increased by 44% to $70.1 million
- Oil operating earnings more than doubled to $79.6 million

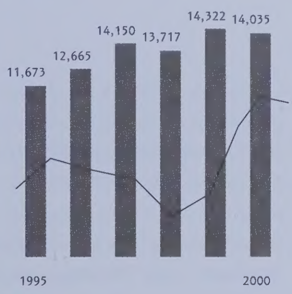
Commodity Prices
1980 – 2000

Sherritt International
1995[1] – 2000 Production

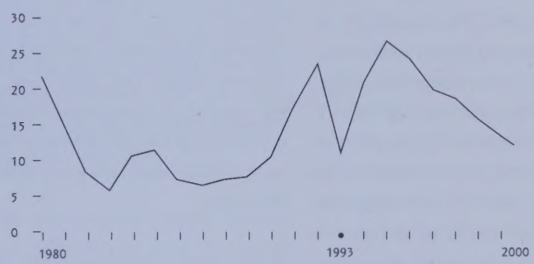
Production
Commodity price

NICKEL
LME annual average price/U.S. $ per pound

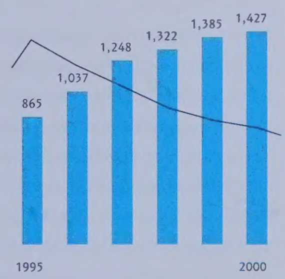
NICKEL
tonnes



COBALT
MB 99.3% annual average price/U.S. $ per pound



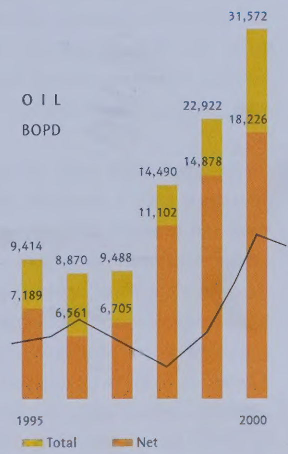
COBALT
tonnes



- *Chart uses price of MB 99.8% for years prior to 1993.*

OIL
WTI Sweet annual average price/U.S. $ per barrel

OIL
BOPD



[1] *Pro forma 1995 results. Assumes that the businesses acquired November 24, 1995 were effectively acquired on January 1, 1995.*

Letter to Shareholders

The year 2000 was a successful year for your company. Revenues and earnings set records and operational performance was excellent. These results were realized by several years of streamlining, coupled with higher commodity prices allowing your company to maximize results.

Your company now holds a portfolio of businesses in key areas of the Cuban economy, namely nickel and cobalt mining, oil and gas exploration and development, power-generation, telecommunications, tourism and agriculture. Your company's management is focused on maximizing the full potential of these businesses. The metals business expanded to a new ore deposit, Moa Oriental. We have significantly increased oil production. Sherritt Power is actively pursuing development of new power-generating projects in Cuba and elsewhere. It is currently negotiating the terms of expanding the Boca de Jaruco facility in Cuba. Our communications and tourism businesses are meeting expectations and the new soybean processing plant is being commissioned.

In the year 2000, your company's business operations generated cash in excess of near-term investment objectives and financial obligations. Your company undertook several corporate initiatives to restructure the balance sheet to yield these benefits to the shareholders. At the Annual Shareholder Meeting in May of 2000, shareholders approved the recapitalization of the company, which allowed us to begin paying quarterly dividends. Your company also began a program for the orderly retirement of its outstanding convertible debentures prior to maturity.

Your company's financial position remains strong with a highly liquid balance sheet. Your management has been examining a wide range of investment alternatives that would further our primary objective to create value for you as a shareholder. Your company's historic strength has been in optimizing undervalued industrial assets. As financial markets stumble, your company is ideally positioned to take advantage of investment opportunities that emerge.

As we go to print with this annual report, your company awaits the results of an offer to acquire all of the outstanding Units and Convertible Debentures of Luscar Coal Income Fund. The offer was made by Sherritt Coal Partnership, a partnership between your company and a subsidiary of Ontario Teachers' Pension Plan Board. We are very pleased to be working with Teachers' in undertaking this offer.

The excellent financial results for your company in 2000 would not have been possible without the hard work of employees, managers, directors, bankers, advisors and other stakeholders. I would like to thank all of these groups for their commitment to the successful performance of your company.

Ian W. Delaney
Chairman, March 2001

Sherritt International achieved record revenues and earnings in 2000. The Corporation generated net earnings of \$115.6 million on revenue of \$480.4 million in 2000, compared with net earnings of \$66.6 million on revenue of \$372.3 million in 1999. Operating earnings for 2000 were \$120.3 million, 79% higher than in 1999. The results reflected record oil production and higher realized prices for oil and nickel in comparison with 1999.

The Corporation's Metals business achieved record revenue of \$234.1 million in 2000, a 21% increase from revenue of \$193.3 million in 1999. Operating earnings for 2000 were \$70.1 million, 44% higher than the previous year. This increase primarily reflected higher realized average prices for nickel, partly offset by rising energy costs. The higher energy costs experienced by the Metals business, particularly during the fourth quarter of 2000, are expected to continue throughout 2001. The 2000 average realized price for nickel was \$5.80 per pound, 47% higher than the 1999 average of \$3.94 per pound. Lower average nickel and cobalt prices are anticipated during 2001.

The Fort Saskatchewan refinery set a cobalt production record for the fifth consecutive year. Higher cobalt content feeds contributed to the record production of 2,855 tonnes in 2000. Although total finished nickel production of 28,070 tonnes for 2000 was slightly below the 1999 level, a new quarterly nickel production record of 7,658 tonnes was established in the fourth quarter of 2000, surpassing the previous record established in the third quarter of 1999.

It was another record production year for the Moa facility. The new higher-grade Moa Oriental deposit, which started production in the fourth quarter of 2000, together with the commissioning of a new high-volume thickener, drove 2000 production to 29,520 tonnes of nickel and cobalt contained in mixed sulphides. A new quarterly production record of 7,612 tonnes of mixed sulphides was also established in the fourth quarter. The exit rate of mixed sulphide production at the end of 2000 was equivalent to 31,000 tonnes annualized, the rate that is expected for 2001.

The Oil and Gas business had another record year in 2000. Operating earnings were $79.6 million, more than double the previous year. Record oil production in Cuba for the fourth consecutive year and higher realized oil prices resulted in operating revenue of $165.2 million, a 55% increase over 1999. The average realized oil price increased by 24% to $24.18 per barrel in 2000 from $19.47 per barrel in 1999.

Oil and Gas capital expenditures were $66.3 million in 2000 compared with $51.7 million in 1999. The Corporation's main focus during 2000 was in developing known reserves along the north coast of Cuba, in order to maximize production during a period of high oil prices. Average total daily oil production was 30,356 barrels per day in 2000, an increase of 29% from 1999. Average total daily oil production in Cuba increased by 35% to 29,554 barrels per day. For the longer term, management is considering using its experience to pursue selective exploration programs outside of Cuba.

The Corporation's investments in power-generation, communications, tourism and agriculture have performed in accordance with management expectations. Sherritt Power is actively pursuing potential development opportunities to utilize its experience in constructing and operating power-generating facilities in Cuba and elsewhere. Cubacel continues to expand its infrastructure and its service area now extends to twenty of the largest cities, including all provincial capitals, and along all major road links in Cuba.

The record results of 2000 would not be possible without the efforts of the management and employees of Sherritt who have worked hard to increase production and streamline operations over the past years. I wish to thank all of the people at Sherritt for their dedication and hard work.

Frederic J. Wellhauser
President and Chief Executive Officer, March 2001

Review of Operations

(at left) Ore thickening circuit – part of the processing at Moa.

M e t a l s

The Metals business comprises the Corporation's 50% indirect interest in a nickel and cobalt metals business (the "Metals Enterprise") and its marketing and trading activities in commodity metals. The Metals Enterprise mines, processes, refines, markets, and sells commodity nickel and cobalt worldwide. It has mining operations and associated processing facilities in Moa, Cuba; refining facilities in Fort Saskatchewan, Alberta; and international marketing and sales operations. Refined nickel and cobalt production is derived from the treatment of mixed sulphides from Moa, together with some cobalt and nickel-bearing materials from other sources.

The Metals business achieved record operating earnings of $70.1 million on record revenue of $234.1 million in 2000, surpassing the previous record operating earnings of $48.7 million on revenue of $193.3 million in 1999. The 44% increase in operating earnings was primarily attributable to higher realized nickel prices, partially offset by higher cost of energy. Capital expenditures in 2000 were primarily directed towards the opening of the new higher-grade Moa Oriental orebody, maximizing production, and maintaining and upgrading plant operations.

In 2000, the Moa mining and processing facilities achieved a new production record of 29,520 tonnes of nickel plus cobalt contained in mixed sulphides. Production was 9% higher than the 27,020 tonnes achieved in 1999 and surpassed the previous production record of 27,066 tonnes established in 1998. Production gains were achieved through the ongoing debottlenecking program and the continued application of innovative mining and processing solutions. These factors, combined with more than 40 years of pressure acid leach operational expertise, have enabled the Metals Enterprise to continue operating the Moa mining and processing facilities at record levels.

The Moa facilities mine by open pit methods primarily using excavators and haulage trucks. Mining at Moa Oriental, a new orebody, commenced on October 1, 2000. Ores are reclaimed in appropriate blends to satisfy the plant metallurgical control parameters.

The Fort Saskatchewan refinery set a cobalt production record for the fifth consecutive year. Total finished cobalt production of 2,855 tonnes in 2000 was 3% higher than last year's production of 2,770 tonnes. The high cobalt content in feeds, combined with systematic improvements to the refining process implemented during the last several years, positioned the refinery to achieve yet another record for cobalt production. Total finished nickel production for 2000 was 28,070 tonnes, slightly below the record production of 28,643 tonnes set in 1999.

Continued implementation of innovative technological solutions has enabled the Fort Saskatchewan refinery to address production-limiting factors, achieve incremental production gains and process record quantities of cobalt contained in feeds. The Metals refinery uses only pressure hydrometallurgical processes. Autoclaves conduct chemical reactions at elevated pressures in order to extract and recover metals from metal-bearing feed materials. The advantages of hydrometallurgical processes, in comparison with conventional pyrometallurgical smelting processes, are that it requires lower capital costs, does not emit sulphur dioxide, and substantially all metal and chemical agents are recovered for sale.

Maximizing production and mitigating the impact of higher energy costs will remain the focus in 2001. Natural gas prices increased through 2000 and were at historically high levels during the year. The expanded natural gas pipeline capacity in Alberta during the past several years has contributed to the natural gas price increase, reflecting higher demand for natural gas in North American markets. The deregulation of Alberta's electricity markets, effective January 1, 2001, is expected to result in higher electricity prices in 2001.

Nickel prices on the London Metal Exchange ("LME") were volatile throughout 2000, opening the year at U.S.$3.74 per pound, rising to a high of U.S.$4.84 per pound in March and closing at U.S.$3.26 per pound. Strong worldwide nickel demand and supply interruptions supported the nickel price for the first three quarters in 2000. The average LME settlement price for 2000 was U.S.$3.92 per pound, 44% higher than the 1999 average of U.S.$2.73 per pound.

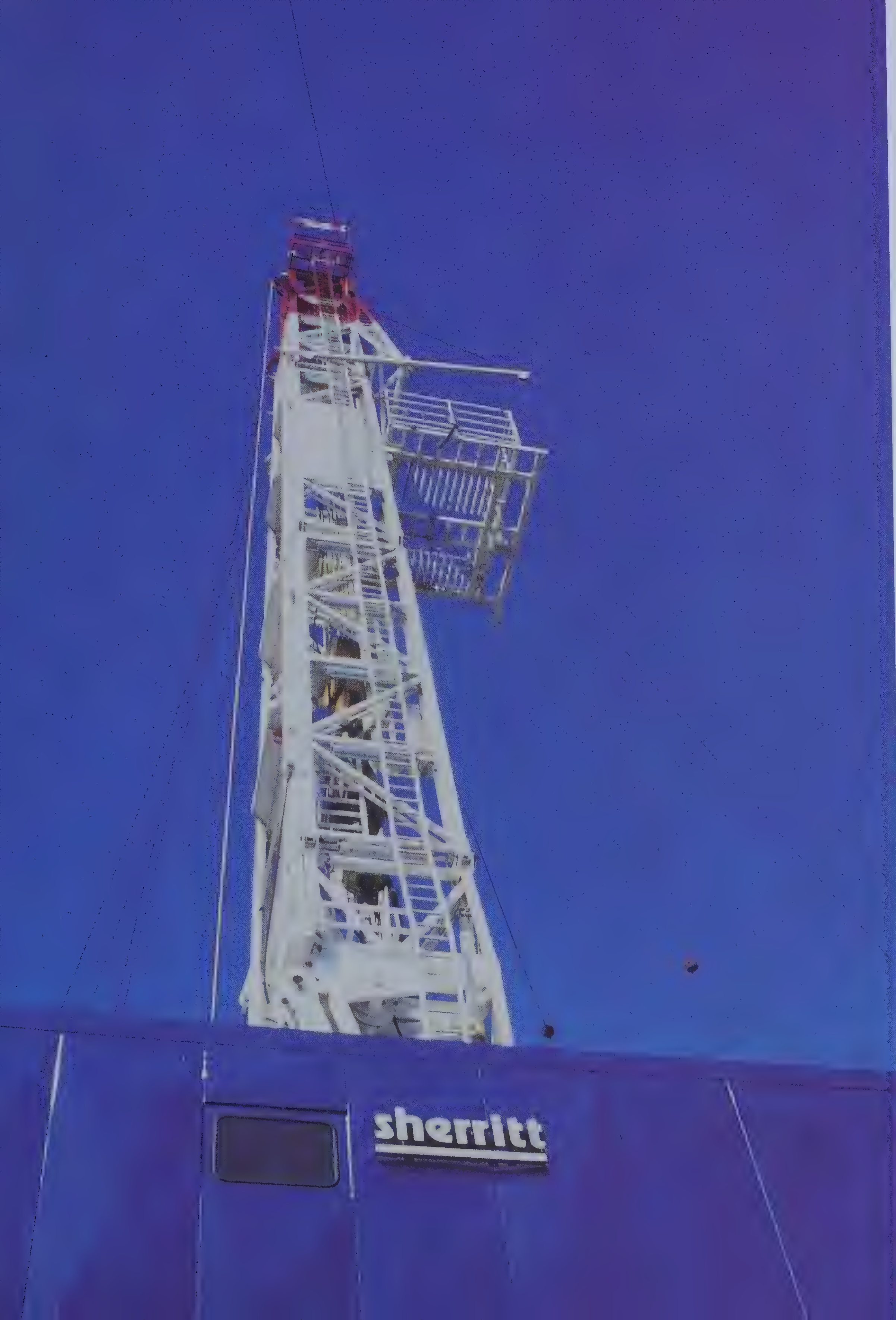
During 2000, the Metal Bulletin 99.3% free market cobalt price traded in a range between U.S.$10.55 per pound and U.S.$15.85 per pound, averaging U.S.$13.26 per pound for the year, compared with U.S.$15.29 per pound in 1999. The lower cobalt price reflected additional production from several international expansions and increased production from new international laterite projects.

(at right)
One of the Corporation's two drilling rigs in Cuba, custom built in Alberta for tropical conditions.

Oil & Gas

The Corporation's principal Oil and Gas assets include producing oil fields in Cuba and Spain.

Oil production increased in 2000 by 29% or 2.5 million barrels to 11.1 million barrels and represented a new production record for the fourth consecutive year. Daily total oil production in 2000 averaged 30,356 barrels of oil per day compared with 23,590 barrels of oil per day in 1999. Approximately 97% of the Corporation's total oil production is produced in Cuba. Sherritt International is the largest foreign producer of oil in Cuba and ranks seventh among Canadian oil and gas producers in terms of production levels from foreign operations. By August 2000, the Corporation had produced over 30 million barrels of oil in Cuba since it first commenced operations in 1992.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Oil production in Cuba is sold to a government agency at sales prices based on an international reference price for fuel oil. The U.S. Gulf Coast Fuel Oil No. 6 reference price averaged U.S.$20.76 per barrel in 2000 compared with U.S.$14.28 per barrel in 1999.

Revenue from the Oil and Gas business climbed by $58.7 million or 55% to $165.2 million in 2000, reflecting record oil production and higher realized oil prices. These factors also resulted in record operating earnings in 2000 of $79.6 million, more than double that reported for the previous year.

Total proved plus probable petroleum reserves were 78.4 million barrels of oil at the end of 2000 compared with 100.9 million barrels of oil at the end of 1999, based on a constant oil price scenario. The decrease in oil reserves primarily reflected production during the year and reserve adjustments.

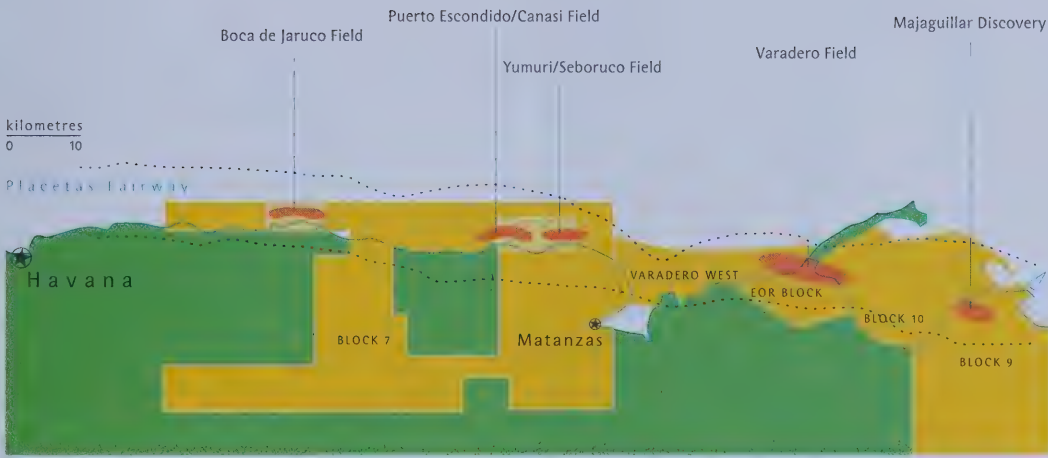
The Corporation's main focus during 2000 was in developing known reserves along the north coast of Cuba, in order to maximize production during a period of high oil prices. Net undeveloped acreage at the end of 2000 was 3.2 million acres compared with 3.8 million acres at the end of 1999. Using a constant oil price scenario, the present worth of the Corporation's share of worldwide proved plus probable reserves, discounted at 10%, was determined by independent consultants to be $330 million at December 31, 2000.

The principal properties and related development plans of the Corporation are described below:

CUBA Through a subsidiary, the Corporation holds a 100% working interest in four enhanced production-sharing contracts with the Government of Cuba. The enhanced production-sharing contracts require the Corporation to provide services and technical assistance to rework and enhance the production of selected wells, or to drill new wells in existing oil fields. The Corporation also holds indirect interests varying from 40% to 100% working interest in seven exploration production-sharing contracts, which involve the exploration for and development of new oil and gas reservoirs in Cuba, or the extension of the known field boundaries of existing reservoirs, using state of the art geological and geophysical exploration techniques. The eleven production-sharing contracts cover a total of 3.7 million acres.

Total oil production in Cuba was 29,554 barrels per day in 2000 compared with 21,855 barrels per day in 1999. New wells in the Varadero West, Seboruco and Yumuri areas contributed to the 35% production increase. Oil production in Cuba is allocated to the Corporation and agencies of the Cuban Government in accordance with production-sharing arrangements. The Corporation's share of production for each production-sharing arrangement comprises profit oil (which is based upon a negotiated percentage) and cost recovery oil (which is based upon the Corporation's development and operating costs). Development and operating costs, upon certification by agencies of the Cuban Government, are accumulated in cost recovery pools by each production-sharing arrangement and reduced by an allocation of produced oil to the Corporation. The Corporation's share of oil production from Cuba in 2000 under these production-sharing arrangements was 6.4 million barrels or 17,424 barrels per day compared with 4.8 million barrels or 13,143 barrels per day in 1999.

During its nine years of operating in Cuba, the Corporation has accumulated an extensive database of the historical geological, engineering and production information from all of the wells in the north coast oil fields and has gained unparalleled experience in the characterization, technical understanding and management of Cuba's reservoirs. The Oil and Gas business has been successful in applying modern exploration and completion technology to geological basins that were relatively under-explored in the past. The country appears to have a favourable geological setting for massive accumulations of oil and gas. The Corporation has identified several exploratory prospects along the north coast heavy oil trend and plans to test some of these prospects in order to generate new reserves for future development. In the longer term, management intends to utilize this knowledge base to pursue selective exploration programs in geologically similar jurisdictions outside Cuba. Sherritt International's experience in establishing the necessary infrastructure to support its development program in Cuba provides the Corporation with the ability to support new development opportunities in other countries.



Oil & Gas Operations in Cuba

During 2000, the Corporation participated in the drilling of six development wells and one exploratory well in Cuba. The Felipe 1-X exploratory well in the Block L contract area which was drilling at year-end did not encounter productive horizons.

In the Yumuri contract area, two step out wells, Yumuri 202 and Yumuri 203, were drilled to the west of the Yumuri 201 discovery well drilled in June 1999. The Yumuri 202 well had an initial stabilized production rate of 3,460 barrels of oil per day. The Yumuri 203 well had an initial stabilized production rate of 3,210 barrels of oil per day.

In the Block 7 contract area, two development wells were drilled at Seboruco. The Seboruco 2 well had an initial stabilized production rate of 1,070 barrels of oil per day. A step out well, Seboruco 3, was drilled structurally down dip which was subsequently placed on production in December 2000 at 500 barrels of oil per day. Also in the Block 7 contract area, the Jibacoa 1-X exploration well did not encounter the expected reservoir and the well was suspended in mid-November.

In the Varadero West contract area, two multi-lateral wells were drilled. The VD-708 well was drilled and had an initial stabilized production rate of 2,300 barrels of oil per day. The VD-712 well was placed on production in September at a rate of 1,500 barrels of oil per day.

SPAIN The Corporation owns a 14.5% indirect working interest in the Casablanca oil field, a 15.6% working interest in the Rodaballo oil field, a 29% interest in the Boqueron oil field and an 18.4% interest in the Barracuda oil field, all located in the Gulf of Valencia, offshore Spain. Production from the Corporation's fields in Spain averaged 802 barrels of oil per day in 2000 compared with 1,175 barrels of oil per day in 1999. Natural declines and increased water-cut contributed to the 32% decrease in production. During 1999, the Corporation participated in the successful Chipiron-1 exploratory well. The Corporation elected in 2000 not to participate in the development of this field upon review of the plans and budget prepared by the operator for the completion and tie-in of this well to the existing Casablanca platform. Two wells were drilled in Spain during 2000, one of which resulted in the discovery of the Barracuda field. The Barracuda well commenced commercial production in December 2000.

PAKISTAN The Corporation indirectly holds a 30% working interest in the Ghauspur Concession in the central Indus Basin. The Government of Pakistan approved a plan of development for the Badar discovery, in the Ghauspur Concession, which tested 21 million cubic feet of natural gas per day. Negotiations are ongoing with a gas transmission company on pricing and the quantity of gas to be produced and sold. The Corporation's share of net proved and probable reserves is estimated to be approximately 17.3 billion cubic feet of natural gas as at December 31, 2000.

INDONESIA The Corporation indirectly holds a 5% working interest in a large concession on Seram Island in eastern Indonesia. A plan of development has been submitted and approved by the Government of Indonesia and the operator is scheduled to commence work in 2001 to bring the oil wells into production using an early production system. The Corporation intends to dispose of this interest in 2001.

Fertilizers

The Corporation owns assets, which produce fertilizer products, primarily for sale in the Western Canadian market, and which provide some of the critical input requirements for the Fort Saskatchewan metals refinery. Revenue is derived primarily from the sale of nitrogen fertilizers, and of sulphate fertilizers produced directly or indirectly as a by-product of the metals refining process.

Total fertilizer sales in 2000 were 330,337 tonnes, compared with 306,579 tonnes in 1999. All of the Corporation's sales were into the Western Canadian market, which minimized freight costs for the business. The Western Canadian ammonia reference price trended higher throughout 2000 averaging $372 per tonne for the year, up 28% from last year. The average reference price for Western Canadian ammonium super sulphate was $201 per tonne during 2000, 2% below the price for 1999.

The Fertilizers business incurred an operating loss of $8.2 million in 2000 compared with an operating loss of $2.7 million in 1999. Operating results reflected higher natural gas and energy costs, a major input in the production of nitrogen fertilizers. The Alberta reference price for natural gas increased by 91% in 2000 compared with 1999. High energy costs in Western Canada necessitated the temporary suspension of the urea facility in October 2000. The operating status of the urea facility will continue to be reviewed in relation to prevailing market conditions. Sales of ammonia and ammonium sulphate were unaffected by the temporary closure.

Other Businesses

Power-Generation

The Corporation owns approximately 49.7% of the common shares of Sherritt Power Corporation ("Sherritt Power") as well as $75 million principal amount of Sherritt Power Notes. Sherritt Power is an independent public company, created to finance, construct and operate power-generating businesses worldwide.

Through a wholly-owned subsidiary, Sherritt Power holds a one-third indirect interest in Energas S.A., which was established to build and operate power-generating facilities in Cuba. The facilities are designed to produce low cost, reliable power, utilizing natural gas from Cuba's petroleum fields.

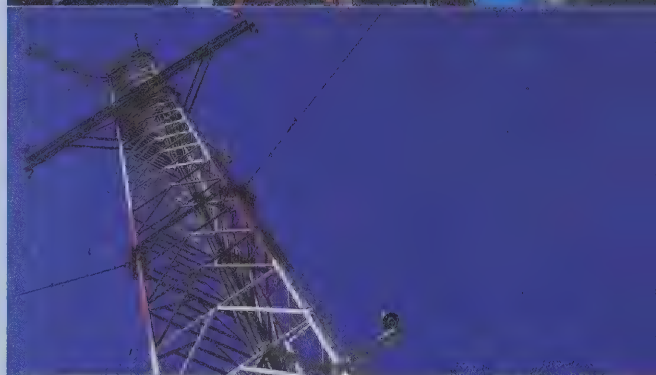
Two world-class power plants, which have a combined installed capacity of 131 megawatts (MW) have been constructed and commissioned for Energas, one at Varadero and one at Boca de Jaruco. Early in 2000, Sherritt Power began refurbishment of an existing turbine, sited near the Varadero plant, to take advantage of surplus natural gas from the present Varadero operations; this added 20 MW of net power capacity upon commissioning in March 2000. Construction on the final phase of the Varadero plant, which commenced in October 2000, includes the addition of waste heat recovery boilers to capture waste exhaust heat and a steam turbine to generate an additional 75 MW of net power capacity. Energas will have a total net power capacity of 226 MW.

Sherritt Power expects to utilize its experience in constructing and operating power-generating facilities on new projects worldwide and is actively pursuing a number of potential development opportunities in Cuba and elsewhere.

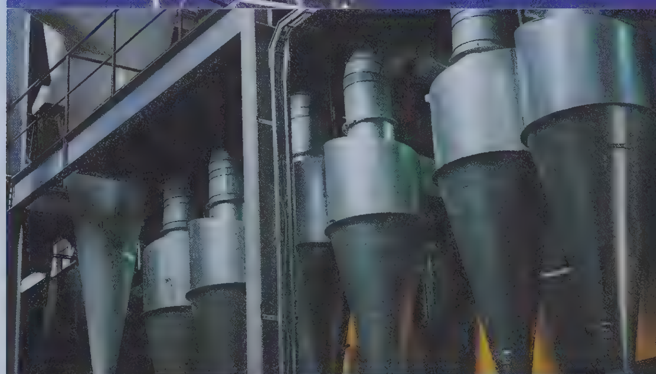
Communications

Teléfonos Celulares de Cuba S.A. ("Cubacel") holds the cellular telephone concession in the Republic of Cuba. During the third quarter of 2000, Sherritt International increased its interest in a company, whose primary asset

Sherritt Power is building the final phase at the Varadero plant adding 75 MW of net power capacity.

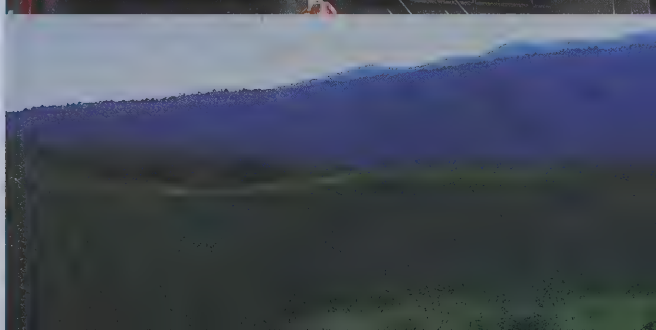


A telecommunications tower of Cubacel – part of an infrastructure that provides coverage to all major Cuban cities and road links.



Soybean processing equipment at the plant in Santiago de Cuba.

State of the art emergency equipment station at the power plant in Varadero – a component of worker health and safety management.



Reforestation and reclamation of mined areas at the Moa mine.

is 50% of the outstanding common shares of Cubacel, from 75% to 80%, for an effective 40% indirect interest in Cubacel. Cubacel continued to expand its infrastructure during the year to provide national coverage. Service now extends to twenty of the largest cities, including all provincial capitals, and along all major road links in Cuba. Cubacel's revenue increased by 20% in 2000, primarily reflecting a 30% increase in the number of subscribers. In September 2000, Cubacel was granted a license to become an internet service provider enabling it to offer e-mail, data transfer and internet access services in Cuba. Cubacel received several awards for quality and performance during the year, including a special mention for the Iberoamerican Prize for Quality.

Tourism

Sherritt International holds a 25% indirect interest in the concession for the Las Americas luxury beach front hotel and bungalow complex. The Las Americas suites and golf resort are located on the Hicacos peninsula in Varadero, Cuba. The Corporation also holds a 12.5% indirect interest in the Hotel Habana in Havana, Cuba, which provides special amenities for business travellers. The Sol Mélia hotel group of Spain manages the business operations of both the Varadero and Havana hotel complexes.

Soybean Processing

Through a subsidiary, the Corporation has a 49% interest in Procesadora de Soya S.A., a joint venture, whose business is to build and operate a 500 tonne per day soybean processing plant in Santiago de Cuba, Cuba. The plant, which is expected to commence commissioning in the spring of 2001, will produce soy-based crude oil, meal, flour and vegetable protein.

Environment, Health & Safety

Sherritt International is committed to responsible environmental management and employee health and safety. The Corporation conducts its businesses to comply with or exceed all applicable environmental regulations and observes internationally accepted industry environmental management practices. The Corporation's Board of Directors has an environmental, health and occupational safety committee, which has a mandate to review environmental health and safety policies and programs, oversee related performance and monitor current and future regulatory issues.

A number of long-term environmental initiatives were implemented during 2000 through the creative use of available technology and in partnership with the community, industry and regulators. A liquid effluent discharge project at the Corporation's Fort Saskatchewan site was completed during the year, in conjunction with local municipalities and provincial regulators. This project resulted in the Fort Saskatchewan site achieving its objective of no direct discharges into waterways. At the Moa mining and processing facilities, advanced mining processes were implemented to improve sediment and erosion control and to better manage reforestation. In the Cuban Oil and Gas operations, Sherritt International undertook a project to reduce the raw hydrogen sulphide emissions associated with oil production from the Yumuri field. A phase separator and flare system is being erected to divert and flare the associated gas production from the producing oil wells. This will remove hydrogen sulphide from the area and is a temporary measure until a permanent treatment facility is built later this year.

The Fort Saskatchewan site achieved better than average health and safety performance for the Metals industry and the Moa facilities continued to lead the Cuban mining industry with its health and safety performance.

Financial Review

Management's Discussion & Analysis

This report provides a discussion and analysis on the Corporation's 2000 audited consolidated financial results, with a focus on the operating results of the Metals, Oil and Gas and Fertilizers businesses. Information is also provided on the Corporation's other businesses, comprising its power-generation, communications, soybean processing, tourism and agriculture investments in Cuba. The following discussion and analysis should be read in conjunction with the audited consolidated financial statements.

Summary of Consolidated Results

Consolidated net earnings increased by $49.0 million or 74% to $115.6 million or $1.38 per restricted voting share ("share") compared with $66.6 million or $0.60 per share in 1999. On a diluted basis, earnings per share increased from $0.45 per share in 1999 to $0.84 per share in 2000. In December 2000, a new accounting standard was issued for calculating earnings per share, which was retroactively adopted by the Corporation in its 2000 consolidated financial statements. The effect of these new recommendations, which are described in the notes to the consolidated financial statements, was a $0.10 increase in basic earnings per share (1999 – nil) and a $0.07 increase in diluted earnings per share (1999 – $0.02).

Consolidated revenue for 2000 reached $480.4 million, a 29% increase from $372.3 million in 1999. All operations experienced significantly higher revenue. Metals revenue increased by 21% or $40.8 million, primarily due to higher realized nickel prices. Revenue from the Oil and Gas business grew by 55% or $58.7 million reflecting record oil production in Cuba and higher average oil prices.

Operating, selling, general and administrative costs of $288.3 million were $37.6 million or 15% higher than in 1999. Most of the increase was due to higher energy costs experienced by the Metals and Fertilizers businesses combined with higher operating costs in the Oil and Gas business, consistent with an increase in oil production.

Depletion and amortization expense was $71.2 million in 2000 compared with $50.4 million in 1999. Most of the increase arose in the Oil and Gas business as a result of higher production volumes and a higher depletion rate. In the third quarter of 2000, the Corporation realized a $3.0 million gain on the sale of its remaining properties in Italy.

Financing income comprised net interest income and foreign exchange gains and losses. The $2.1 million increase to $29.0 million in 2000 included a $2.7 million foreign exchange gain versus a $5.3 million foreign exchange loss in 1999. This gain reflected a stronger U.S. dollar at the end of 2000 compared with the prior year. Net interest income declined by $7.3 million in 2000 to $25.6 million due to lower average cash and short-term investment balances. The Corporation's short-term investments had a weighted-average interest rate of 5.5% in 2000 compared with 4.8% in 1999.

The Corporation's effective tax rate in 2000 was 22% compared with 26% in 1999. The decrease in the effective tax rate was primarily due to a higher proportion of net earnings generated by the Oil and Gas business, which is taxed at a lower rate.

Cash from operating activities of $129.1 million was generated in 2000 compared with $90.0 million in 1999. The $39.1 million increase in operating cash flow reflected higher net earnings, partly offset by a working capital build-up. Uses of cash during 2000 included investing activities of $136.1 million, convertible debenture interest payments of $37.5 million, dividends of $21.7 million and the repurchase of $75 million principal amount of convertible debentures at a cost of $58.1 million. Total assets at December 31, 2000 were $1.3 billion, of which $261.3 million comprised cash and short-term investments.

METALS

The Metals segment comprises the Corporation's 50% indirect interest in the metals joint venture ("Metals Enterprise") and its marketing and trading activities in commodity metals. The Metals Enterprise is a vertically-integrated commodity nickel/cobalt metals business, comprising mining and associated processing facilities in Moa, Cuba, refining facilities in Fort Saskatchewan, Alberta and international marketing and sales operations. Refined nickel and cobalt are derived from the treatment of mixed sulphides from Moa, together with some cobalt and nickel-bearing materials from other sources.

thousands of Canadian dollars	2000	1999
Revenue	$ 234,091	$ 193,339
Operating earnings	70,068	48,662
Capital expenditures	21,936	11,616

The Metals business achieved record operating earnings of $70.1 million on record revenue of $234.1 million in 2000, surpassing the previous record operating earnings of $48.7 million on revenue of $193.3 million in 1999. The 44% increase in operating earnings was primarily due to higher realized nickel prices, partially offset by higher energy costs.

	2000	1999
Volumes (1)		
Sales (thousands of pounds)		
Nickel	29,480	31,623
Cobalt	3,075	3,390
Production (tonnes)		
Mixed sulphides (2)	14,760	13,510
Nickel	14,035	14,322
Cobalt	1,427	1,385

(1) Comprises the Corporation's 50% share of the Metals Enterprise and Sherritt's marketing and trading activities.

(2) Nickel and cobalt contained.

The Fort Saskatchewan refinery set a cobalt production record for the fifth consecutive year. Total finished cobalt production of 2,855 tonnes in 2000 surpassed last year's total finished cobalt production of 2,770 tonnes by 3%. Higher cobalt content feeds contributed to record cobalt production. Total finished nickel production for 2000 was 28,070 tonnes, slightly below the record production of 28,643 tonnes established in 1999.

A new production record of 29,520 tonnes of nickel plus cobalt contained in mixed sulphides was achieved by the Moa mining and processing facilities in 2000, 9% higher than both the 1999 production of 27,020 tonnes and the previous production record of 27,066 established in 1998. Moa's record production is a reflection of the systematic upgrading, rehabilitation and debottlenecking initiatives that have been undertaken since the inception of the joint venture.

Canadian dollars per pound	2000	1999
Averaged Realized Prices		
Nickel	$ 5.80	$ 3.94
Cobalt	19.65	19.42

Nickel prices on the London Metal Exchange ("LME") were volatile throughout 2000, opening the year at U.S.$3.74 per pound, rising to a high of U.S.$4.84 per pound and closing at U.S.$3.26 per pound. Strong worldwide nickel demand and supply interruptions supported the nickel price for the first three quarters in 2000. The average LME nickel settlement price for 2000 was U.S.$3.92 per pound, 44% higher than the 1999 average of U.S.$2.73 per pound.

During 2000, the Metal Bulletin 99.3% free market cobalt price traded in a range between U.S.$10.55 per pound and U.S.$15.85 per pound, averaging U.S.$13.26 per pound for the year, compared with U.S.$15.29 per pound in 1999. The lower cobalt price reflected additional production from several international expansions and increased production from new international laterite projects.

Capital expenditures of $21.9 million in 2000 were primarily directed towards opening up the new higher-grade Moa Oriental orebody, maximizing cobalt production, attaining production improvements and maintaining and upgrading plant operations.

OIL AND GAS

During 2000, the Company produced oil from fields in Cuba and Spain and natural gas in Italy. The Corporation also had interests in exploration acreage in Cuba and Spain and other countries, including Pakistan and Indonesia.

thousands of Canadian dollars	2000	1999
Revenue	$ 165,183	$ 106,511
Operating earnings	79,571	39,143
Capital expenditures	66,263	51,718

Record oil production in Cuba and higher realized oil prices boosted revenue by 55% in 2000 to $165.2 million. These factors also contributed to record operating earnings in 2000 of $79.6 million, more than double that reported for the previous year. The increase in production resulted in a higher depletion and amortization expense, up $16.0 million in 2000 to $47.3 million. The annual depletion and amortization rate, based on the Corporation's share of oil production, increased by 24% to $7.09 per barrel reflecting the impact of changes in reserve estimates during the year. During the third quarter of 2000, the Corporation realized a $3.0 million gain from the sale of its gas properties in Italy.

Oil production in Cuba is sold to a Cuban government agency at sales prices based on an international reference price for fuel oil of comparable quality. The average realized oil price increased by 24%, from $19.47 per barrel in 1999 to $24.18 per barrel in 2000. The average U.S. Gulf Coast Fuel Oil No. 6 reference price averaged U.S.$20.76 per barrel in 2000, compared with U.S.$14.28 per barrel in 1999. During the year, the Corporation employed forward contracts to fix the price of approximately 5,900 barrels of oil per day at an average Fuel Oil No. 6 price of U.S.$17.89 per barrel. No fixed price contracts were outstanding at the end of the year.

	2000	1999
Daily Oil Production (barrels)		
Cuba (1)	29,554	21,855
Spain	802	1,175
Italy	–	560
Total	30,356	23,590

(1) Oil production in Cuba is allocated to the Corporation and agencies of the Cuban Government in accordance with production-sharing arrangements. The Corporation's share of production for each production-sharing arrangement comprises profit oil (which is based upon a negotiated percentage) and cost recovery oil (which is based upon the Corporation's development and operating costs). Development and operating costs, upon certification by agencies of the Cuban Government, are accumulated in cost recovery pools by each production-sharing arrangement and reduced by an allocation of produced oil to the Corporation.

The Corporation set a new oil production record for the fourth consecutive year. Oil production increased by 29% in 2000 to 11.1 million barrels compared with 8.6 million barrels in 1999. Oil production at the end of 2000 was approximately 30,300 barrels per day compared with 24,800 barrels per day at the end of 1999. Approximately 92% of Oil and Gas revenue was derived from oil production in Cuba. The 35% production increase in Cuba to 10.8 million barrels arose from new wells in the Varadero, Varadero West, Seboruco and Yumuri areas. The Corporation's share of oil production from Cuba in 2000 under the production-sharing agreements was 59% or 6.4 million barrels compared with 60% or 4.8 million barrels in 1999. Natural declines contributed to a 32% decrease in production from Spain.

A total of six development wells and one exploratory well were drilled in Cuba during 2000. Drilling of the Felipe 1-X exploration well was ongoing at the end of the year. In Spain, two exploratory wells were drilled, one of which discovered the Barracuda field. The Barracuda well commenced commercial production in December 2000.

Total proved oil reserves in Cuba decreased from 63.4 million barrels at the end of 1999 to 54.5 million barrels at the end of 2000, reflecting production during the year and reserve adjustments. The Corporation concentrated its efforts in Cuba towards the development of known reserves along the north coast of Cuba, in order to maximize production during a period of high oil prices.

FERTILIZERS

The Corporation owns assets that produce fertilizer products, primarily for sale in the Western Canadian market and provide some of the critical input requirements for the Fort Saskatchewan metals refinery. Revenue is derived primarily from the sale of nitrogen fertilizers, and of sulphate fertilizers produced directly or indirectly as a by-product of the metals refining process.

thousands of Canadian dollars	2000	1999
Revenue	$ 64,927	$ 57,134
Operating loss	(8,217)	(2,696)
Capital expenditures	2,493	4,861

In 2000, the Fertilizers business incurred an operating loss of $8.2 million on revenue of $64.9 million, compared with an operating loss of $2.7 million on revenue of $57.1 million in 1999. Operating results reflected higher natural gas and energy costs, a major input in the production of nitrogen fertilizers. The Alberta reference price for natural gas increased by 91% in 2000 compared with 1999. High energy costs in Western Canada necessitated the temporary suspension of the urea facility in October 2000. The operating status of the urea facility will continue to be reviewed in relation to prevailing market conditions. Sales of ammonia and ammonium sulphate were unaffected by the temporary closure. The Western Canadian ammonia price trended higher throughout 2000 averaging $372 per tonne for the year, up 28% from last year. The average price for Western Canadian ammonium super sulphate was $201 per tonne during 2000, 2% below the price for 1999.

Capital expenditures of $2.5 million were incurred to sustain the production assets.

OTHER

This segment includes the Corporation's power-generation, communications, soybean processing, tourism and agriculture investments in Cuba. The Corporation's power-generation investment comprises its 49.7% interest in the shares of Sherritt Power Corporation ("Sherritt Power") and $75 million principal amount of 11.5% Senior Unsecured Amortizing Notes, due 2004 ("Senior Notes"). The Corporation's investment in communications comprises an indirect 40% investment in Teléfonos Celulares de Cuba S.A. ("Cubacel"). Its soybean processing investment comprises a 49% indirect interest in a joint venture which will operate a soybean processing plant in Santiago de Cuba. Tourism investments comprise a 25% indirect interest in a resort hotel in Varadero, Cuba and a 12.5% indirect interest in a hotel in Havana, Cuba. The Corporation also has a 50% indirect interest in a 200 hectare market garden business in Cuba.

thousands of Canadian dollars	2000	1999
Revenue	$ 16,154	$ 15,362
Operating earnings	3,832	3,852
Share of earnings (loss) of equity investments	788	(1,275)
Capital expenditures	13,773	19,004

Revenue from this segment comprises the Corporation's share of Cubacel's revenue. Revenue in 1999 also included a one-time amount of $1.8 million. Cubacel's revenue increased by 20% in 2000, primarily reflecting a 30% increase in the number of subscribers. During 2000, Cubacel continued its infrastructure expansion to provide national coverage. Service now extends to twenty of the largest cities and along all major road links in Cuba. During the third quarter of 2000, the Corporation increased its effective ownership of Cubacel from 37.5% to 40% for a cash consideration of $4.4 million. Income from equity investments comprised the Corporation's 49.7% share of Sherritt Power's net loss and income from tourism investments. At the end of 2000, the power projects undertaken by Sherritt Power had a total installed capacity of 151 megawatts. During 2000, Sherritt Power commenced construction of the final phase of the Varadero facility, which will provide an additional 75 megawatts of net power capacity upon completion, expected in 2002. Commissioning of the soybean processing plant is expected to commence during the first quarter of 2001.

Capital expenditures include construction costs associated with the soybean processing plant and expenditures to expand the communications infrastructure in Cuba.

Liquidity and Capital Resources

Cash and short-term investments at December 31, 2000 totalled $261.3 million compared with $386.0 million at the end of 1999. Cash from operating activities in 2000 was $129.1 million compared with $90.0 million in 1999. The $39.1 million increase in operating cash flow reflected higher net earnings, partly offset by a $64.0 million build-up in working capital. Working capital increased in 2000 primarily due to higher oil volumes and changes in billing procedures agreed to with the Cuban agency responsible for purchasing the Corporation's oil production in Cuba. The result of these changes was an improved process for certifying accumulated development and operating costs and an extension of credit terms in certain circumstances. The terms of credit now vary with the market price of oil and, depending upon such price, bear interest at a fixed rate.

Uses of cash during 2000 included investing activities of $136.1 million, convertible debenture interest payments of $37.5 million, dividends of $21.7 million and the repurchase of convertible debentures for $58.1 million. Investing activities included capital expenditures of $116.3 million and payments of $8.3 million related to the 1999 divestiture of the Vega platform.

During the first quarter of 2000, the Corporation established a mechanism for the retirement of its outstanding convertible debentures prior to maturity, as business conditions warrant. In 2000, the Corporation repurchased, through three substantial issuer bids, a total of $75 million principal amount of debentures at prices of $710, $740 and $830 per $1,000 principal amount of debentures respectively, for a total cost (including accrued interest and expenses) of $58.1 million.

In the second quarter of 2000, the Corporation initiated the payment of a quarterly dividend. Dividends of $0.10 per share were paid during the second, third and fourth quarters of 2000, for a total of $21.7 million. The Corporation received dividends of $15.6 million during the year from its joint ventures and investments.

On February 2, 2001, Sherritt Power announced that it will hold a special meeting of Noteholders on March 21 to seek approval to amend the terms of its Senior Notes. Under the terms of this amendment, Sherritt Power will repay $44.6 million of the principal amount of the Senior Notes, which was previously scheduled for amortization on March 31, 2002. The amendment also includes a provision to extend the amortization payments scheduled for March 31, 2003 and

March 31, 2004 to five annual payments beginning on March 31, 2003 and a provision to increase the interest rate to 12.125%. If approved by the Noteholders, the Corporation will receive approximately $15.7 million from Sherritt Power comprising its proportionate share of the principal amount of Senior Notes to be repaid, including a premium paid for early redemption. Should the Sherritt Power Noteholders agree to the amended terms, the Corporation would advance Sherritt Power up to U.S.$12.5 million under the Cash Flow Assurances Agreement entered into in March 1998. Advances under the Cash Flow Assurances Agreement bear interest at LIBOR plus 6%.

At the end of 2000, the Corporation had outstanding letters of credit of approximately $4.9 million. In addition, certain of the Corporation's joint ventures had outstanding amounts under various credit facilities of approximately $16 million.

In February 2001, the Corporation obtained an external 364-day revolving term facility of $75 million, secured by accounts receivable and inventory. This facility will be used by the Corporation to fund normal working capital requirements of its operations.

In order to maintain sufficient flexibility to make long-term strategic investments, the Corporation invested excess funds in short-term liquid Canadian marketable securities.

The agreements establishing the various joint ventures in which the Corporation has interests require the unanimous consent of shareholders to pay dividends. The Corporation does not believe that these restrictions will have a material impact on its ability to meet its obligations. Cash generated from operations and cash and short-term investments on hand are expected to be sufficient to finance ongoing future operations and business growth.

Risks and Uncertainties

The Corporation's current businesses include the production, refining and marketing of nickel and cobalt and the production of oil and gas and fertilizers. Revenues and earnings from the sale of these commodities are sensitive to changes in market prices over which the Corporation has little or no control. The Corporation has the ability to address its price-related exposures through the limited use of options, futures and forward contracts. Many of the Corporation's businesses operate in currencies other than Canadian dollars. The Corporation is also sensitive to foreign exchange exposures when commitments are made to deliver products quoted in foreign currencies or when the contract currency is different from the product price currency. Foreign exchange contracts may be used by the Corporation to manage these exposures. During the year, the Corporation employed forward contracts to fix the price of approximately 5,900 barrels of oil per day at an average Fuel Oil No. 6 price of U.S.$17.89 per barrel. These contracts expired on December 31, 2000. No other derivative financial instruments were utilized during the year. The Corporation maintains a system of internal controls to minimize the risks associated with derivatives and credit risk associated with derivative counter-parties.

A significant portion of the assets in which the Corporation has an indirect interest is located in Cuba. All sales generated by the Corporation's Oil and Gas operations in Cuba are made to an agency of the Government of Cuba. The Cuban Government's future policies relating to foreign investors and foreign exchange payments could be affected by the political environment and economic pressure resulting from its limited access to foreign exchange. The Corporation is entitled to the benefit of certain assurances received from the Government of Cuba and certain agencies of the Government of Cuba that protect it from adverse changes in law, although such changes remain beyond the control of the Corporation and the effect of any such changes cannot be accurately predicted.

The Corporation will continue to be affected by the difficult political relationship between the United States and Cuba. The United States prohibits U.S. citizens from engaging in virtually all transactions involving Cuba. The U.S. embargo thus limits the Corporation's access to U.S. capital, finance, customers and suppliers.

Under the HELMS-BURTON ACT, a law enacted in the United States in March 1996 (the "1996 Law"), U.S. citizens whose property was "confiscated", without compensation, by the Government of Cuba are entitled to sue, for up to treble

damages, anyone who uses, profits from, or otherwise "traffics" in the confiscated property. The 1996 Law authorizes the President of the United States to suspend indefinitely, for successive periods of six months or less, the right of otherwise eligible claimants to file 1996 Law lawsuits. Effective January 2001, the outgoing President suspended for the tenth successive six-month period the right to file any such lawsuits, currently through at least July 2001. By July 17, 2001, the new President must announce whether he will renew that suspension for another period of up to six months.

The Corporation has received letters from U.S. citizens claiming ownership of certain Cuban properties or rights in which the Corporation has an indirect interest, and explicitly or implicitly threatening litigation. The 1996 Law may encourage these claimants to seek damages against the Corporation if the suspension of the right to file lawsuits is not renewed. Because 1996 Law lawsuits have not been authorized, the interpretation of the law by the U.S. courts is uncertain. Uncertainties over the interpretation of the 1996 Law may impose limitations on the Corporation's non-Cuban operations and on third parties that deal with the Corporation, thus affecting its commercial relationships.

Neither the Corporation nor its subsidiaries hold assets located in the United States. In addition, the FOREIGN EXTRATERRITORIAL MEASURES ACT (Canada) was amended as of January 1, 1997 to provide that any judgment given under the 1996 Law will not be recognized or enforceable in any manner in Canada. The amendments permit the Attorney General of Canada to declare, by order, that a Canadian corporation may sue for and recover in Canada any loss or damage it may have suffered by reason of the enforcement of a 1996 Law judgment abroad. In such a proceeding, the Canadian court could order the seizure and sale of any property in which the defendant has a direct or indirect beneficial interest, or the property of any person who controls or is a member of a group of persons that controls, in law or in fact, the defendant. The property seized and sold could include shares of any corporation incorporated under a law of Canada or a province.

The Federal Government of Canada has also responded to the 1996 Law through diplomatic channels and through remedies under multilateral trade agreements. Other countries, such as the members of the European Union and the Organization of American States, have expressed their strong opposition to the 1996 Law and, like Canada, are taking or considering steps, both domestically and multilaterally, to counter its effect.

Deutsche Bank Canada ("DBC") has delivered an Application and supporting materials, filed with the Court of Queen's Bench of New Brunswick, seeking a declaration that DBC has been "oppressed" by the Corporation, and various ancillary relief. The proceeding was commenced in New Brunswick because the Corporation is incorporated under the *Business Corporations Act* of New Brunswick, and accordingly the "oppression" remedy under that legislation provides for an application to a New Brunswick Court. DBC's claim is premised upon an assertion that statements in the debenture prospectus in 1996 and other public disclosure documents since constitute "promises" rather than statements of intent. DBC alleges that the Corporation has "promised" that it will not pay dividends and that it "promised" that it would pursue a growth strategy to use the funds raised in Cuban investments. Although at this early stage in the proceeding it is difficult to estimate the outcome, the DBC claim appears to lack any legal merit and the likelihood of any loss appears remote.

In July 1996, the Corporation and others were sued by Consolidated Development Corporation ("Consolidated"), a U.S. entity purporting to be the former owner of certain petroleum exploration rights and interests in lands in Cuba in respect of which the Corporation allegedly has certain rights and interests. This suit was not filed under the 1996 Law. The suit was dismissed by a U.S. court in July 1997, and judgment was entered in favour of the Corporation in October 1997. Consolidated appealed and the appeal was dismissed in 2000.

More generally, the U.S. embargo, adverse developments in U.S. law, and underlying political tensions between the United States and Cuba are matters beyond the Corporation's control.

Sensitivities

The following table identifies the approximate sensitivity of the Corporation's 2000 results to selected product prices and volumes, and exchange rates.

Factor	Change	Approximate Annual Change in Net Earnings (millions of dollars)	Approximate Annual Change in Basic EPS
Prices			
Nickel – LME price per pound	U.S.$ 0.10	2.7	0.04
Cobalt – Metal Bulletin price per pound	U.S.$ 1.00	2.5	0.03
Oil – W.T.I. price per barrel	U.S.$ 1.00	5.3	0.07
Volumes			
Nickel – pounds	500,000	0.7	0.01
Cobalt – pounds	50,000	0.2	–
Oil – barrels	100,000	1.1	0.02
Exchange Rate			
U.S. to Canadian $	U.S.$ 0.01	2.3	0.03

Management Report

Management is responsible for the preparation of the accompanying consolidated financial statements of the Corporation in accordance with Canadian generally accepted accounting principles, and for its discussion and analysis of results and financial condition, which information is consistent with the financial statements. Systems of internal control are maintained by the Corporation to provide reasonable assurance of the completeness and accuracy of the financial information. These systems include the delegation of authority and segregation of responsibilities among qualified personnel in accordance with operating and financial policies and procedures. The Board of Directors appoints an Audit Committee, which meets with representatives of the Corporation's financial personnel and the Corporation's independent auditors. The Committee reviews the Corporation's accounting policies and the scope and the results of the independent auditors' examination of the Corporation's financial statements. The Corporation also has an internal audit function that evaluates and formally reports to management and the Audit Committee on the adequacy and effectiveness of internal controls. The independent auditors, who are appointed by the shareholders, examine and report on the financial statements of the Corporation in accordance with Canadian generally accepted auditing standards. The auditors' report to the shareholders of the Corporation is set out below. The accompanying consolidated financial statements have been reviewed and approved by the Board of Directors and the Audit Committee.

Frederic J. Wellhauser
President and Chief Executive Officer

Jowdat Waheed
Senior Vice President, Finance
and Chief Financial Officer

February 22, 2001

Auditors' Report

To the Shareholders of Sherritt International Corporation:

We have audited the consolidated balance sheets of Sherritt International Corporation as at December 31, 2000 and 1999 and the consolidated statements of operations, retained earnings (deficit) and cash flow for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Toronto, Canada
February 22, 2001

Consolidated Balance Sheets

as at December 31

thousands of Canadian dollars	2000	1999
ASSETS		
Current assets		
Cash and short-term investments (note 13)	$ 261,343	$ 386,018
Advance and loans receivable (note 6)	5,027	13,739
Accounts receivable (note 13)	176,602	126,813
Inventories (note 3)	76,759	76,131
Prepaid expenses	9,059	6,400
	528,790	609,101
Capital assets (note 4)	507,406	460,455
Investments (note 5)	178,407	174,033
Future income taxes	19,896	13,357
Other assets (note 6)	101,213	86,009
	$ 1,335,712	$ 1,342,955
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term indebtedness (note 13)	$ 8,000	$ 9,283
Accounts payable and accrued liabilities	77,419	88,752
Site restoration and abandonment (note 7)	–	8,280
	85,419	106,315
Site restoration and abandonment (note 7)	26,649	23,239
Future income taxes	12,670	8,197
Minority interest	2,865	2,377
	127,603	140,128
Shareholders' equity		
Convertible debentures (note 8)	587,314	660,729
Capital stock (note 9)	349,840	548,997
Contributed surplus (notes 8 and 9)	199,787	–
Retained earnings (deficit)	71,168	(6,899)
	1,208,109	1,202,827
	$ 1,335,712	$ 1,342,955

Approved on behalf of the Board

Ian W. Delaney, Director

Daniel P. Owen, Director

Consolidated Statements of Operations

year ended December 31

thousands of Canadian dollars except per share amounts	2000	1999
Revenue	$ 480,355	$ 372,346
Expenses and other income		
Operating, selling, general and administrative	288,312	250,701
Depletion and amortization	71,228	50,379
Gain on sale of capital assets	(3,002)	–
Amortization of goodwill (note 6)	1,286	1,236
Provision for site restoration and abandonment (note 7)	3,513	4,181
Share of loss (earnings) of equity investments	(788)	1,275
Financing income, net (note 11)	(29,045)	(26,924)
Minority interest	1,130	1,178
Earnings before taxes	147,721	90,320
Taxes (note 12)		
Current	26,594	17,592
Future	5,557	6,127
	32,151	23,719
Net earnings	$ 115,570	$ 66,601
Earnings per restricted voting share (notes 1(b) and 9)		
Basic	$ 1.38	$ 0.60
Diluted	0.84	0.45

Consolidated Statements of Retained Earnings (Deficit)

year ended December 31

thousands of Canadian dollars	2000	1999
Beginning of year	$ (6,899)	$ (49,886)
Elimination of deficit at January 1, 2000 through a reduction in stated capital (note 9)	6,899	–
Net earnings	115,570	66,601
Interest on convertible debentures (note 8)	(22,675)	(23,614)
Dividends on restricted voting shares	(21,727)	–
End of year	$ 71,168	$ (6,899)

Consolidated Statements of Cash Flow

year ended December 31

thousands of Canadian dollars	2000	1999
Operating activities		
Net earnings	$ 115,570	$ 66,601
Items not affecting cash		
Depletion and amortization	71,228	50,379
Gain on sale of assets	(3,002)	–
Amortization of goodwill	1,286	1,236
Provision for site restoration and abandonment	3,513	4,181
Future income taxes	5,557	6,127
Other items	(938)	(941)
Cash provided before working capital changes	193,214	127,583
Decrease (increase) in non-cash working capital		
Accounts receivable	(49,789)	(49,322)
Inventories	(628)	3,051
Prepaid expenses	(2,659)	1,816
Accounts payable and accrued liabilities	(10,969)	6,851
	(64,045)	(37,604)
Cash provided by operating activities	129,169	89,979
Investing activities		
Capital expenditures	(116,343)	(87,818)
Net proceeds from sale of capital assets (note 4)	4,150	–
Site restoration payments (note 7)	(8,383)	–
Investments	(7,836)	(62,480)
Other assets	(7,638)	(24,227)
Cash used for investing activities	(136,050)	(174,525)
Financing activities		
Short-term indebtedness	(1,283)	2,240
Convertible debenture interest payments (note 8)	(37,500)	(40,500)
Dividends on restricted voting shares	(21,727)	–
Dividend paid to minority shareholder	–	(1,957)
Issue of restricted voting shares	843	390
Repurchase of convertible debentures (note 8)	(58,127)	–
Cash used for financing activities	(117,794)	(39,827)
Decrease in net cash	(124,675)	(124,373)
Net cash at beginning of year	386,018	510,391
Net cash at end of year	$ 261,343	$ 386,018

Net cash consists of cash and short-term investments.

In 2000, the Corporation received interest of $22.4 million (1999 – $37.4 million), paid interest on short-term indebtedness of $0.6 million (1999 – $0.6 million) and paid income taxes of $26.2 million (1999 – $10.9 million).

Notes to Consolidated Financial Statements

all tabular amounts expressed in thousands of Canadian dollars except per share amounts

1 Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, including the following:

a) Principles of consolidation

The consolidated financial statements include the financial position, results of operations, and cash flow of Sherritt International Corporation ("the Corporation"), its subsidiaries, and its proportionate interest in joint ventures which include certain of the Corporation's oil and gas activities conducted jointly with others. Other entities which are not controlled but over which the Corporation has the ability to exercise significant influence, are accounted for using the equity method of accounting. Investments in which the Corporation does not have significant influence are accounted for using the cost method of accounting.

b) Accounting changes

In the fourth quarter of 2000, the Corporation retroactively adopted new recommendations of the Canadian Institute of Chartered Accountants on earnings per share. All prior year earnings per share information has been restated to conform to the new recommendations. Under the new standard, differences between the cost and carrying amount of convertible debentures repurchased are included in the calculation of basic and diluted earnings per share. In addition, the diluted earnings per share calculation uses the treasury stock method to account for employee stock options instead of the imputed earnings approach.

The effect of these new recommendations was a $0.10 increase in basic earnings per share (1999 – nil) and a $0.07 increase in diluted earnings per share (1999 – $0.02). A detailed calculation for basic and diluted earnings per share is included in note 9.

c) Translation of foreign currencies

Transactions in foreign currencies are translated into Canadian dollars at rates of exchange at the time of such transactions. Monetary assets and liabilities are translated at current rates of exchange. The unrealized translation gains or losses on long-term monetary items are recognized over the remaining term of these items. Foreign operations are considered integrated and are translated into Canadian dollars using current rates of exchange for monetary assets and liabilities, historical rates of exchange for non-monetary assets and liabilities, and average rates for revenues and expenses, except depletion and amortization which are translated at the rates of exchange applicable to the related assets. Gains or losses resulting from these translation adjustments are included in income.

d) Inventory valuation

Finished products, raw materials and materials in process are valued at the lower of average cost and net realizable value. Spare parts and operating materials are valued at the lower of average cost and replacement cost.

e) Capital assets

i) Capitalization – Capital assets are stated at cost, which includes capitalized interest.

In mining operations, costs of exploring for new ore occurrences are charged to earnings in the period in which they are incurred. Development costs relating to new ore occurrences are deferred until production commences.

In oil and gas operations, the Corporation follows the full cost method of accounting, whereby all costs associated with the exploration and development of oil and gas reserves are capitalized in cost centres on a country-by-country basis. These costs include land acquisitions, drilling of productive and non-productive wells, geological and geophysical surveys, and overhead expenses related to exploration and development activities. Costs associated with dry or abandoned wells on proved properties in producing cost centres are charged to the full cost pool and subjected to depletion.

Expenditures, net of revenues, incurred in cost centres which are in the preproduction stage of development are capitalized until such time as planned significant operations commence. The recovery of the Corporation's investments in preproduction stage cost centres is subject to finding and producing oil and gas reserves in economic quantities. The Corporation periodically reviews the costs associated with unproved properties and preproduction stage cost centres to determine whether they are likely to be recovered. When costs are not likely to be recovered, an impairment allowance is made.

Proceeds from the disposition of petroleum and natural gas properties are accounted for as a reduction in capitalized costs, with no gain or loss recognized unless such disposition would alter the depletion rate by more than 20%.

ii) Ceiling Test – Under the full cost method of accounting, the net carrying cost of oil and gas properties is limited to an estimated recoverable amount. This amount is the aggregate of future net revenues from the proved reserves and the costs of undeveloped properties, net of impairment allowances, less costs to develop proved undeveloped properties, future general and administrative costs, site restoration and abandonment costs, financing costs, and income taxes. Future net revenues are calculated using current or contracted prices, where applicable, that are not escalated or discounted. Independent engineers have evaluated or reviewed estimates of proved developed and undeveloped reserves and related future net revenues and development costs.

iii) Depletion and amortization – Processing, refining, and manufacturing facilities are amortized using the straight-line method based on estimated useful lives. Such lives are generally limited to a maximum of 20 years.

Mine reserves are depleted over the estimated reserve life using the unit of production method. Oil and gas properties and equipment are depleted using the unit of production method for proved developed and undeveloped properties. Management periodically reviews its estimates of proved reserves and reflects the appropriate adjustments in the depletion calculation.

f) Site restoration and abandonment costs

Site restoration and abandonment costs are provided for when reasonably determinable by a systematic charge to earnings. Provisions are based upon engineering estimates of costs, taking into consideration the anticipated method and extent of remediation consistent with legal requirements, industry practices, current technology and the possible uses of the site.

g) Intangible assets

Goodwill and the cellular telephone concession are amortized over their estimated useful lives to a maximum of 15 years. Management periodically assesses the value of goodwill and the cellular telephone concession by considering current operating results, trends and prospects.

h) Financial instruments

Options, futures, swaps and forward contracts may be used by the Corporation to hedge the effect of changes in prices of nickel and oil. The Corporation operates internationally and is exposed to risks from changes in foreign currency exchange rates. Foreign currency forward contracts may be used to hedge the effect of exchange rate changes. Gains and losses on these contracts are reported as a component of the related transaction. The value of these contracts are marked to market with the resulting gains and losses included in income. The Corporation may be exposed to losses if the counterparties to the above contracts fail to perform. The Corporation manages this risk by dealing only with financially sound counterparties and by establishing dollar and term limitations for each counterparty.

Short-term investments primarily comprise liquid investments in government treasury bills, bankers' acceptances and bearer deposit notes of authorized banks and other appropriately rated commercial paper. Investment guidelines limit investment exposure to any one entity.

i) Income taxes

The Corporation follows the liability method of accounting for income taxes. Future income taxes reflect the tax effect of differences between the book and tax basis of assets and liabilities.

j) Stock-based compensation plans

The Corporation's stock-based compensation plans are described in note 10. No compensation expense is recognized when stock options are issued under the Employee and Director Stock Option Plan or stock issued under the Employee Share Purchase Plan. Any consideration paid by employees on the exercise of stock options or the purchase of stock is credited to capital stock. Shares issued under the Incentive Savings Plan are included as part of compensation expense. Compensation expense for the stock-linked compensation plan is recognized when the Participation Units vest.

k) Estimates

Financial statements prepared in accordance with generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

l) Comparative amounts

Certain comparative amounts have been reclassified to conform to the current year's presentation.

2 Interest in joint ventures

Joint ventures comprise the Corporation's 50% indirect interest in the Metals Enterprise, comprising a mining and processing facility in Moa, Cuba, a metals refinery in Fort Saskatchewan, Alberta and a marketing operation; a subsidiary's 40% indirect interest in Teléfonos Celulares de Cuba S.A. ("Cubacel"), a business providing cellular telephone services in Cuba; and a 49% indirect interest in Procesadora de Soya S.A. ("P.D.S."), a soybean processing facility constructed in Santiago de Cuba, Cuba.

The Corporation's interest in joint ventures is summarized below:

	2000	1999
Consolidated Balance Sheets		
Current assets	$ 112,009	$ 98,147
Long-term assets	245,288	212,379
Current liabilities	47,902	34,980
Long-term liabilities	22,271	22,768
Consolidated Statements of Operations		
Revenue	$ 246,710	$ 203,511
Expense	217,660	174,487
Net earnings	$ 29,050	$ 29,024
Consolidated Statements of Cash Flow		
Cash provided by operating activities	$ 33,978	$ 58,316
Cash used for investing activities	52,432	26,281
Cash used for financing activities	5,661	2,562

3 Inventories

	2000	1999
Raw materials	$ 6,354	$ 5,639
Materials in process	22,280	19,176
Finished product	21,986	17,806
Spare parts and operating materials	26,139	33,510
	$ 76,759	$ 76,131

4 Capital assets

	Cost	Accumulated Amortization and Depletion	Net Book Value 2000	Net Book Value 1999
Oil and Gas	$ 730,337	$ 495,387	$ 234,950	$ 217,872
Metals	173,535	45,060	128,475	118,612
Mine reserves	36,203	9,851	26,352	28,312
Fertilizers	27,599	3,375	24,224	24,252
Other	115,059	21,654	93,405	71,407
	$ 1,082,733	$ 575,327	$ 507,406	$ 460,455

The carrying value of unproved oil and gas properties in producing cost centres at December 31, 2000 was $2.0 million (1999 – $2.6 million). The carrying value of pre-production cost centres at December 31, 2000 was $8.9 million (1999 – $8.0 million). The amount of general and administrative expenses capitalized in 2000 was $13.8 million (1999 – $9.2 million).

Included in capital assets at December 31, 2000 is $37.8 million related to assets under construction (1999 – $30.6 million) primarily comprising the soybean processing plant. These assets are not subject to amortization.

The Corporation sold its remaining assets in Italy during 2000, comprising various onshore gas properties, for a net gain of $3.0 million.

5 Investments

	2000	1999
Power-generation (a)	$ 89,021	$ 89,606
Tourism (b)	21,910	20,987
Metals (c)	65,354	63,094
Other	2,122	346
	$ 178,407	$ 174,033

a) The Corporation owns 49.7% of the common shares of Sherritt Power Corporation ("Sherritt Power"), a company that constructs and operates gas plants in Cuba. The Corporation also holds $75 million principal amount of 11.5% Senior Unsecured Amortizing Notes ("Senior Notes"), due 2004. This investment is accounted for using the equity method of accounting.

b) The Corporation has a 25% indirect interest in a hotel complex in Varadero, Cuba, and a 12.5% indirect interest in a hotel complex in Havana, Cuba. Both investments are accounted for as long-term investments using the equity method of accounting.

c) Metals investments comprise the Corporation's investment in Anaconda Nickel Limited ("Anaconda"), a mining company listed on the Australian Stock Exchange, and other public mining companies. These investments are accounted for using the cost method of accounting.

6 Other assets

	2000	1999
Advance receivable (a)	$ 13,868	$ 13,295
Loans receivable (b)	19,355	21,340
Cellular telephone concession (c)	26,509	26,268
Goodwill (c)	16,455	16,298
Deposits (d)	5,137	5,087
Deferred debenture interest (note 8)	11,303	14,877
Asset held for resale	8,847	–
Other	4,766	2,583
	106,240	99,748
Current portion of advance and loans receivable	5,027	13,739
	$ 101,213	$ 86,009

a) Advance receivable mainly comprises funds advanced by a subsidiary of the Corporation to an agency of the Cuban Government to finance construction of facilities for the gathering, storage, treatment and transportation of crude oil from fields in which the Corporation is currently producing oil. Future obligations of the Corporation to this Cuban agency for treatment and transportation costs for production from these fields will be offset against this advance.

b) A subsidiary of the Corporation has entered into, as lender, an interest-bearing financing agreement and an interest-bearing revolving credit facility for a combined total of U.S. $27 million with P.D.S. for the construction of a new soybean processing plant in Cuba and to fund working capital requirements. At December 31, 2000, the proportionate amount outstanding under these agreements was approximately $19.3 million (1999 – $15.2 million). The loans are repayable from the cash flows of P.D.S. Title to the plant remains with the subsidiary of the Corporation until repayment of the loans.

At December 31, 1999, a subsidiary of the Corporation also had an interest-bearing secured term facility with Cubacel to finance the purchase of equipment, the proportionate amount outstanding of which was $6.1 million. This loan was repaid during 2000.

c) Cellular telephone concession of $26.5 million (1999 – $26.3 million) and goodwill of $16.5 million (1999 – $16.3 million) are net of amortization of $5.7 million (1999 – $3.7 million) and $3.5 million (1999 – $2.2 million) respectively. In July 2000, the Corporation increased its effective ownership in Cubacel from 37.5% to 40% for a cash consideration of $4.4 million, of which $1.5 million was allocated to goodwill and $2.3 million was allocated to the cellular telephone concession.

d) The Corporation has a term deposit with a Spanish bank to cover the estimated abandonment costs of oil production facilities in Spain. The deposit matures in 2002 and had an effective interest rate in 2000 of 2.6% (1999 – 1.7%).

7 Site restoration and abandonment

	2000	1999
Balance, beginning of year	$ 31,519	$ 27,338
Provision	3,513	4,181
Paid during the year	(8,383)	–
Balance, end of year	26,649	31,519
Payable within one year	–	8,280
	$ 26,649	$ 23,239

Effective December 31, 1999, the Corporation divested its 20% interest in the Vega concession and platform in Italy. Site restoration payments made during 2000 primarily comprise the Corporation's payment to the purchaser of 11 billion lira ($8.3 million) as a contribution of costs to be borne by the purchaser for well plugging and decommissioning equipment relating to the Vega platform. Under the terms of the agreement, the Corporation is indemnified against all future environmental liabilities, including the decommissioning of the Vega platform.

Management's estimate of requirements for site restoration and abandonment liabilities are based on current contracts and regulations, which may be changed over the course of time. Such events could result in significant changes in these provisions.

8 Convertible debentures

Convertible debentures comprise $600 million (1999 – $675 million) of 6% convertible unsecured subordinated debentures issued in November 1996. The debentures have a maturity date of December 15, 2006, and are convertible at the option of the holder into restricted voting shares of the Corporation at a conversion price of $8.775 per restricted voting share. Interest payments on the debentures are made on June 15 and December 15. The convertible debentures are redeemable, provided that the trading price of the Corporation's restricted voting shares reaches certain levels. Subject to regulatory approval, the Corporation may, at its option, satisfy the obligation to pay interest on the convertible debentures or repay the principal amount of the convertible debentures on redemption or at maturity in restricted voting shares. The convertible debentures are included as part of shareholders' equity and are stated net of issue costs less applicable tax relief.

The convertible debentures were distributed on an instalment basis with the final instalment of $337.5 million received on December 1, 1997. Interest payable to debenture holders was determined on the $675 million outstanding from the date of issue. Deferred debenture interest included in other assets of $11.3 million (1999 – $14.9 million) represents the portion of interest relating to the final instalment of outstanding debentures, which was deferred and is being amortized through retained earnings over the term of the debentures. Accordingly, the effective interest rate of the debentures is 6.32%.

During 2000, the Corporation repurchased for cancellation and through substantial issuer bids, a total of $75 million principal amount of debentures at prices ranging from $710 to $830 per $1,000 principal amount of debentures, for a total cost (including accrued interest and expenses) of $58.1 million. The difference between the cost and carrying amount of the debentures repurchased, net of related future taxes and deferred debenture interest, of $6.7 million is included in shareholders' equity as part of contributed surplus.

Interest on the convertible debentures is stated net of tax relief of $17.8 million (1999 – $19.0 million).

9 Capital stock

The Corporation's authorized share capital consists of an unlimited number of restricted voting shares plus 100 multiple voting shares.

Ian W. Delaney, the Chairman of the Board, holds all of the multiple voting shares, giving him sufficient votes to elect a majority of the directors to the Board, subject to limitations contained in the articles of incorporation of the Corporation. These limitations include provisions that the multiple voting shares are non-transferable, are not entitled to any dividends or distributions of assets and are automatically converted into restricted voting shares on a share-per-share basis upon the occurrence of certain events.

Holders of the restricted voting shares are entitled to receive dividends and distributions of assets. The Corporation's outstanding restricted voting shares are as follows:

	Number		Stated Capital	
	2000	1999	2000	1999
Beginning of year	72,269,069	72,139,236	$ 548,997	$ 548,607
Issued during the year	226,967	129,833	843	390
Reduction in stated value	–	–	(200,000)	–
End of year	72,496,036	72,269,069	$ 349,840	$ 548,997

On May 25, 2000, the shareholders approved the elimination of the Corporation's December 31, 1999 accumulated deficit of $6.9 million and the creation of a contributed surplus in the amount of $193.1 million by way of a $200 million reduction in the stated value of the Corporation's restricted voting shares. This contributed surplus may be utilized to eliminate or reduce any deficit which may arise as a result of the future payment or distribution of dividends or other distributions from time to time to holders of the restricted voting shares.

If all of the convertible debentures are converted into shares at the option of the holders, up to 68,376,068 additional restricted voting shares may be issued on or before December 14, 2006.

The following table presents the calculation of basic and diluted earnings per restricted voting share:

	2000	1999
Net earnings	$ 115,570	$ 66,601
Interest on convertible debentures	(22,675)	(23,614)
Effect of repurchase of convertible debentures (note 8)	6,685	–
Net earnings applicable to restricted voting shareholders and after repurchase of convertible debentures	99,580	42,987
Interest on convertible debentures	22,675	23,614
Net earnings applicable to restricted voting shareholders plus assumed conversions	$ 122,255	$ 66,601
Weighted-average number of restricted voting shares – basic	72,378	72,215
Weighted-average effect of dilutive securities:		
Employee stock options	203	12
Convertible debentures	73,015	76,923
Weighted-average number of restricted voting shares for diluted calculation	145,596	149,150
Earnings per restricted voting shares – basic	$ 1.38	$ 0.60
Earnings per restricted voting shares – diluted	0.84	0.45

The calculation of diluted earnings per share assumes that employee stock options were exercised at the beginning of the year or time of issuance, if later. Employee stock options with an exercise price greater than the average market price of the restricted voting shares were not included in the calculation of diluted earnings per share as the effect was anti-dilutive. The average market price of the restricted voting shares during the year was $4.18 (1999 – $3.09).

10 Stock compensation plans

The Corporation established an Employee and Director Stock Option Plan (the "Option Plan") in 1995 to govern the granting of certain options to purchase restricted voting shares in the Corporation. The current maximum number of options which may be issued under the Option Plan is 6,784,670. Under the Option Plan, the exercise price of each option equals the closing market price of the Corporation's stock on the day prior to the date the option is granted and an option's maximum term is ten years. Options vest on such terms as the Compensation Committee of the Board of Directors determines, generally in three equal instalments on the first, second and third anniversaries of the date the options are granted.

A summary of the status of the Corporation's Option Plan as at December 31, 2000 and 1999, and changes during the years ending on those dates is presented below:

	2000		1999	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
Outstanding at beginning of year	6,405,000	$ 6.63	6,385,000	$ 6.64
Granted	60,000	5.05	20,000	2.70
Outstanding at end of year	6,465,000	6.61	6,405,000	6.63

The following table summarizes information on stock options outstanding at December 31, 2000:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
$ 2.70 – $ 4.70	740,000	7.8 years	$ 3.04	486,667	$ 3.05
4.71 – 6.70	3,385,000	5.0 years	6.53	2,366,667	6.56
6.71 – 8.30	2,340,000	5.4 years	7.86	2,340,000	7.86

The Corporation has established an Incentive Savings Plan ("ISP"), a registered deferred profit-sharing plan. Employees are eligible to participate in the ISP after two years of continuous service. The Corporation contributes annually to the ISP, for the benefit of a participant, an amount calculated as a percentage of that participant's voluntary contributions for that year to the Corporation's Capital Accumulation Plan. The percentage is uniform for all participants, is determined annually by the Corporation and shall be not less than 20% and not more than 180%. The Corporation's contributions are paid to the trustee of the ISP, which uses the funds to subscribe for restricted voting shares at the then-market price. Participants in the ISP, whose entitlements vest after two years of ISP membership, are entitled to receive on retirement, termination or death, a cash amount calculated by reference to the current value of assets held by the trustee under the ISP. The Corporation issued 190,202 and 74,493 restricted voting shares to the trustee under the ISP in 2000 and 1999 respectively. The Corporation has applied to the Toronto Stock Exchange to wind up the ISP effective December 31, 2000 and anticipates that this will be concluded during the first quarter of 2001.

Under the Employee Share Purchase Plan ("ESPP"), the Corporation is authorized to issue up to 400,000 restricted voting shares to its full time employees who are eligible to participate after one year of continuous service. Under the terms of the ESPP, employees may elect to have an amount (up to 5% of their previous year's base earnings) withheld by payroll deduction over a two year period to purchase restricted voting shares of the Corporation. The purchase price of the restricted voting shares is the lower of the share price at the beginning of the two year period and the share price at the end of the period. Under the ESPP, the Corporation issued 36,765 restricted voting shares to employees in 2000 and has, since the inception of the ESPP in 1996, issued an aggregate of 92,105 restricted voting shares to employees under the ESPP.

On September 21, 2000, the Corporation established a stock-linked compensation plan (the "Plan"). Under the terms of the Plan, Participation Units may be issued to directors, senior management and other employees. The Participation Units represent a right to receive a cash amount from the Corporation equivalent to the amount by which the market price of the Corporation's restricted voting shares at time of exercise exceeds the market price of such shares at the time of the grant. No Participation Units have been granted since inception of the Plan.

11 Financing income, net

	2000	1999
Interest on cash, short-term investments and loans	$ 17,576	$ 24,894
Interest income from affiliates	8,625	8,625
Interest expense	(580)	(562)
Other income (expense)	3,424	(6,033)
	$ 29,045	$ 26,924

12 Taxes

The following table reconciles income taxes calculated at a combined Canadian federal/provincial tax rate with the income tax expense in the consolidated financial statements:

	2000	1999
Earnings before taxes	$ 147,721	$ 90,320
Income tax at the combined basic rate of 43.95% (1999 – 44.62%)	64,923	40,301
Increase (decrease) in taxes resulting from:		
Large Corporation Tax	1,108	1,834
Difference between Canadian and foreign tax rates	(34,996)	(20,251)
Reduction in future income tax rates	(3,942)	–
Recognition of unrecorded future income tax asset from previous years	–	(4,578)
Other items	5,058	6,413
Income tax expense	$ 32,151	$ 23,719

Total income tax expense is included in the consolidated statements of earnings and retained earnings (deficit) as follows:

	2000	1999
Income tax expense	$ 32,151	$ 23,719
Tax benefit on convertible debenture interest	(17,780)	(19,026)
	$ 14,371	$ 4,693

Future income taxes consisted of the following temporary differences:

	2000	1999
Capital assets	$ (7,693)	$ (15,149)
Deferred debenture interest	(4,968)	(6,638)
Tax loss carryforwards	24,198	27,311
Other	(4,311)	(364)
Future income tax asset	$ 7,226	$ 5,160

At December 31, 2000 the Corporation had income tax losses of approximately \$77.9 million (1999 – \$84.9 million), which may be used to reduce future years' taxable income. Substantially all of the losses, which expire between 2001 and 2007, are located in Canada. The benefit relating to \$14.7 million (1999 – \$23.2 million) of these losses was not recognized in the financial statements.

13 Financial instruments

The estimated fair values of short-term financial instruments approximate carrying value due to their short-term maturity. The estimated fair value of the Anaconda and other investments was approximately \$67.1 million (1999 – \$85.8 million). The estimated fair value of the Sherritt Power common shares and Senior Notes was \$76.3 million (1999 – \$68.3 million). The Corporation expects to hold the Senior Notes until maturity. The fair values of other financial instruments approximate carrying value. Due to the use of subjective judgment and uncertainties in the determination of estimated fair values, these values should not be interpreted as being realizable in an immediate settlement of the respective financial instruments.

The Corporation had no outstanding financial derivatives at December 31, 2000.

During 2000, the Corporation's short-term investments had a weighted-average interest rate of 5.5% (1999 – 4.8%).

Unutilized lines of credit at December 31, 2000 were \$45.3 million. At the end of 2000, the Corporation had outstanding letters of credit of approximately \$4.9 million.

Short-term indebtedness comprises unsecured obligations and other obligations secured by receivables and inventory of certain joint venture operations. During 2000, the effective interest rate on short-term indebtedness was 8.2% (1999 – 7.4%).

The Corporation has equity investments, current assets, loans and advances located in Cuba of approximately \$301 million (1999 – \$283 million). The Cuban Government's future policies relating to foreign investors and foreign exchange payments could be affected by the political environment and economic pressure resulting from the Cuban Government's limited access to foreign exchange.

Accounts receivable included approximately \$31.4 million (1999 – \$5.3 million) of unbilled revenue primarily related to cost recovery oil production in Cuba. Under the terms of the production-sharing contracts, cost recovery oil production becomes billable after certification of accumulated development and operating costs.

14 Related party transactions

Subsidiaries of the Corporation provide, on various terms, goods and services to the Metals Enterprise under supply and service agreements. In addition, under a labour supply agreement, subsidiaries of the Corporation have agreed to provide labour services, at cost, which the Metals Enterprise requires and requests for the purpose of carrying on its business. The Corporation and its subsidiaries also market all of the cobalt, a portion of the nickel, and certain by-products produced by the Metals Enterprise, pursuant to sales agreements. Cubacel provides, on commercial terms, services to the Corporation and its affiliates. The Corporation and its subsidiaries provide, on various terms, advisory and administrative services to Sherritt Power.

The total value of all goods and services, including labour services, that the Corporation and its subsidiaries provided to affiliates in 2000 amounted to \$96.2 million (1999 – \$63.4 million). The total value of goods and services purchased from affiliates in 2000 was \$9.0 million (1999 – \$8.3 million).

Amounts receivable from affiliates at December 31, 2000, totalled \$6.3 million (1999 – \$15.6 million). Amounts payable to affiliates at December 31, 2000 totalled \$1.7 million (1999 – \$14.2 million).

15 Commitments and contingencies

The Corporation is committed to annual payments under operating leases as follows:
2001 – \$6.7 million; 2002 – \$2.3 million; 2003 – \$2.1 million; 2004 – \$2.0 million; 2005 – \$1.2 million.

The Corporation entered into an agreement with Sherritt Power (the "Cash Flow Assurances Agreement") whereby the Corporation agreed to advance funds to Sherritt Power under certain circumstances to enable it to fund its obligations to holders of the Senior Notes, to a maximum of U.S.$12.5 million. These advances, should they be required, will bear interest at LIBOR plus 6% and will rank pari passu with the Senior Notes, and will be repayable no later than March 31, 2005. No advances were made during the year. The Corporation also committed under this agreement to reimburse Sherritt Power for amounts deducted from distributions by the project on account of Cuban income taxes up to an aggregate maximum of U.S.$5.0 million, in exchange for an assignment to the Corporation of Sherritt Power's rights to investment credits arising on payment of this tax. If required, the Corporation will also provide bridge financing to Sherritt Power on commercial terms.

The Corporation had other outstanding commitments aggregating $21.9 million at December 31, 2000.

The Metals Enterprise intends to continue investing in pollution abatement capital projects over the next four years to ensure that the Moa, Cuba operations meet applicable national and international environmental standards. It is anticipated that the Metals Enterprise will generate sufficient funds from internal resources to finance these expenditures.

The agreements establishing the Metals Enterprise require the unanimous consent of its shareholders to pay dividends. It is not expected that this restriction will have a material impact on the ability of the Corporation to meet its obligations.

A significant portion of the business by subsidiaries and affiliates of the Corporation is undertaken in Cuba. The Corporation will continue to be affected by the difficult political relationship between the United States and Cuba. The Corporation does not, directly or indirectly, hold any assets in the United States. The Corporation has received letters from U.S. citizens claiming ownership of certain Cuban properties or rights in which the Corporation has an indirect interest, and explicitly or implicitly threatening litigation. Having regard to legal and other developments in the United States, and remedies available in Canada and in Europe, the Corporation believes that the impact of any claims against it will not be material.

Deutsche Bank Canada ("DBC") has delivered an Application and supporting materials, filed with the Court of Queen's Bench of New Brunswick, seeking a declaration that DBC has been "oppressed" by the Corporation, and various ancillary relief. The proceeding was commenced in New Brunswick because the Corporation is incorporated under the *Business Corporations Act* of New Brunswick, and accordingly the "oppression" remedy under that legislation provides for an application to a New Brunswick Court. DBC's claim is premised upon an assertion that statements in the debenture prospectus in 1996 and other public disclosure documents since constitute "promises" rather than statements of intent. DBC alleges that the Corporation has "promised" that it will not pay dividends and that it "promised" that it would pursue a growth strategy to use the funds raised in Cuban investments. Although at this early stage in the proceeding it is difficult to estimate the outcome, the DBC claim appears to lack any legal merit and the likelihood of any loss appears remote.

16 Subsequent events

On February 2, 2001, Sherritt Power announced that it will hold a special meeting of Noteholders on March 21 to seek approval to amend the terms of its Senior Notes. Under the terms of this amendment, Sherritt Power will repay $44.6 million of the principal amount of the Senior Notes, which was previously scheduled for amortization on March 31, 2002. The amendment also included a provision to extend the amortization payments scheduled for March 31, 2003 and March 31, 2004 to five annual payments beginning on March 31, 2003 and a provision to increase the interest rate from 11.5% to 12.125%. If approved by the Noteholders, the Corporation will receive approximately $15.7 million from Sherritt Power comprising its proportionate share of the principal amount of Senior Notes to be repaid, including a premium paid for early amortization. Should the Sherritt Power Noteholders agree to the amended terms, the Corporation would advance Sherritt Power up to U.S.$12.5 million under the Cash Flow Assurances Agreement entered into in March 1998. Advances under the Cash Flow Assurances Agreement bear interest at LIBOR plus 6%.

On February 20, 2001, Sherritt Coal Partnership ("Sherritt Coal"), a partnership between the Corporation and Ontario Teachers' Pension Plan Board announced its intent to acquire all of the 90.7 million outstanding Units of Luscar Coal Income Fund ("the Fund"). Sherritt Coal intends to offer Unitholders either cash of $3.50 per Unit or $2.38 cash plus 0.265 of a Sherritt International Corporation restricted voting share per Unit. As part of the transaction, Sherritt Coal would also cause the Fund to redeem the $100 million of outstanding convertible debentures of the Fund.

17 Segmented information

Business segments

The Corporation's reportable operating segments are business units that offer distinct products and services. The Metals segment comprises mainly the mining, processing and marketing of commodity nickel and cobalt. These activities are performed primarily through the Corporation's 50% indirect interest in the Metals Enterprise. The Oil and Gas segment includes exploration and production of oil and gas outside Canada. The Fertilizers segment includes the production and sale of agricultural fertilizers from its facilities in Alberta, Canada. The Other segment includes power-generation, communications, tourism, agriculture and other activities in Cuba. The Corporate segment comprises management of cash and short-term investments, general corporate activities and the investment in other mining companies, including Anaconda. All sales generated by the Corporation's oil and gas operations in Cuba are made to an agency of the Government of Cuba.

2000	Metals	Oil and Gas	Fertilizers	Other	Corporate	Consolidated
Revenue from external customers	$ 234,091	$165,183	$ 64,927	$16,154	$ –	$ 480,355
Intersegment revenues	7,955	–	–	1,073	–	9,028
Depletion and amortization	14,034	47,308	1,253	4,847	3,786	71,228
Gain on sale of assets	–	3,002	–	–	–	3,002
Provision for site restoration and abandonment	1,898	1,415	200	–	–	3,513
Operating earnings (loss)	70,068	79,571	(8,217)	3,832	(24,950)	120,304
Amortization of goodwill	–	–	–	(1,286)	–	(1,286)
Share of earnings of equity investments	–	–	–	788	–	788
Financing income (expense)	(1,766)	3,120	–	(2,910)	30,601	29,045
Minority interest	–	–	–	(1,130)	–	(1,130)
Earnings (loss) before taxes	68,302	82,691	(8,217)	(706)	5,651	147,721
Capital expenditures	21,936	66,263	2,493	13,773	11,878	116,343
Assets	274,077	382,205	35,068	242,528	401,834	1,335,712

1999	Metals	Oil and Gas	Fertilizers	Other	Corporate	Consolidated
Revenue from external customers	$ 193,339	$106,511	$ 57,134	$ 15,362	$ –	$ 372,346
Intersegment revenues	6,944	–	–	2,088	–	9,032
Depletion and amortization	10,520	31,318	1,003	3,490	4,048	50,379
Provision for site restoration and abandonment	1,743	2,238	200	–	–	4,181
Operating earnings (loss)	48,662	39,143	(2,696)	3,852	(21,876)	67,085
Amortization of goodwill	–	–	–	(1,236)	–	(1,236)
Share of loss of equity investments	–	–	–	(1,275)	–	(1,275)
Financing income (expense)	(1,494)	(1,006)	–	(362)	29,786	26,924
Minority interest	–	–	–	(1,178)	–	(1,178)
Earnings (loss) before taxes	47,168	38,137	(2,696)	(199)	7,910	90,320
Capital expenditures	11,616	51,718	4,861	19,004	619	87,818
Assets	248,462	335,983	45,247	187,519	525,744	1,342,955

Geographic segments

2000	Revenues (1)	Capital Assets and Goodwill
Canada	$ 84,961	$ 140,889
Cuba	168,474	354,024
Europe	162,113	22,078
Asia	62,494	6,857
Other foreign countries	2,313	13
	$ 480,355	$ 523,861

1999	Revenues (1)	Capital Assets and Goodwill
Canada	$ 71,037	$ 126,602
Cuba	103,511	322,843
Europe	132,812	19,634
Asia	64,798	7,637
Other foreign countries	188	37
	$ 372,346	$ 476,753

(1) Revenues are attributed to geographical locations based on location of customer.

Six-year Summary

financial numbers in thousands of Canadian dollars except per share amounts	2000	1999	1998	1997	1996	1995
Statements of Operations (1)						
Revenue	$ 480,355	$ 372,346	$ 312,875	$ 349,434	$ 284,692	$ 26,893
Operating earnings (loss)						
Metals	70,068	48,662	13,908	41,238	40,117	7,518
Oil and Gas (2)	79,571	39,143	(73,435)	2,137	13,578	2,237
Fertilizers (3)	(8,217)	(2,696)	5,700	7,087	7,138	–
Other	3,832	3,852	4,176	5,520	568	(282)
Corporate	(24,950)	(21,876)	(20,354)	(19,597)	(16,953)	(623)
	120,304	67,085	(70,005)	36,385	44,448	8,850
Income (loss) from equity investments	788	(1,275)	(1,716)	570	807	624
Net earnings (loss)	115,570	66,601	(45,995)	37,325	33,345	7,378
Earnings (loss) per restricted voting share						
Basic	1.38	0.60	(0.98)	0.33	0.45	0.10
Diluted	0.84	0.45	–	0.25	0.42	0.10
Balance Sheets						
Cash and short-term investments	261,343	386,018	510,391	600,506	402,304	257,549
Non-cash working capital	177,001	111,309	75,945	111,100	102,841	49,275
Capital assets	507,406	460,455	420,775	371,786	320,386	269,706
Investments and other assets	284,647	273,781	192,622	191,076	122,449	16,955
Debenture instalment receipts	–	–	–	–	337,500	–
Site restoration and abandonment	(26,649)	(31,519)	(27,338)	(24,574)	(21,606)	(19,643)
Future taxes and minority interests	4,361	2,783	(12,945)	(19,637)	(16,376)	(19,794)
Shareholders' equity	1,208,109	1,202,827	1,159,450	1,230,257	1,247,498	554,048
Cash Flows (1)						
Cash provided by operating activities	129,169	89,979	113,779	78,143	52,726	14,963
Capital expenditures	116,343	87,818	156,609	89,324	80,194	9,047
Investments	7,836	62,480	151,191	3,816	–	–
Convertible debenture instalment receipts	–	–	–	337,500	313,728	–
Convertible debenture interest payments	37,500	40,500	40,500	42,331	–	–
Increase (decrease) in net cash	(124,675)	(124,373)	(90,115)	198,202	181,242	5,497
Production Volumes (4)						
Nickel and cobalt contained in mixed sulphides (tonnes)	14,760	13,510	13,533	13,256	13,017	10,326
Nickel (tonnes)	14,035	14,322	13,717	14,150	12,665	11,673
Cobalt (tonnes)	1,427	1,385	1,322	1,248	1,037	865
Oil (barrels per day) (6)	30,356	23,590	15,656	9,524	9,268	10,101
Fertilizers (tonnes) (3)	340,302	400,599	400,026	357,120	68,043	–
Average Realized Prices (4)						
Nickel ($ per pound)	$ 5.80	$ 3.94	$ 3.06	$ 4.15	$ 4.60	$ 5.13
Cobalt ($ per pound)	19.65	19.42	28.00	28.65	34.15	37.78
Oil ($ per barrel)	24.18	19.47	13.31	18.31	20.59	18.25
Restricted Voting Share Prices (5)						
High	5.40	4.00	6.50	8.75	9.50	–
Low	2.90	2.30	2.70	5.40	6.50	–
Shares Outstanding (thousands) (5)	72,496	72,269	72,139	72,017	71,906	71,847

Certain prior year figures have been reclassified to conform to the current year's presentation.

(1) Information for 1995 is for the 38-day period ended December 31, 1995.

(2) The 1998 Oil and Gas operating loss includes a $72.3 million write-down of Oil and Gas assets.

(3) The Corporation purchased the fertilizer assets on October 31, 1996. Revenue and operating earnings for the two months ended December 31, 1996 were positively impacted by above average sales and margins and are not representative of a full year of operations.

(4) Proforma information is presented for 1995, which assumes that the businesses acquired on November 24, 1995 were effectively acquired on January 1, 1995.

(5) Restricted voting shares were issued on June 20, 1996. Prior to June 20, 1996 exchange certificates outstanding were exchangeable on a one-for-one basis for restricted voting shares.

(6) Oil production in Cuba is allocated to the Corporation and the Cuban Government in accordance with production-sharing agreements.

Directors & Senior Officers

DIRECTORS

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Daniel P. Owen * † • ▪
Toronto, Canada

Rupert Pennant-Rea * •
London, England

Sir Patrick Sheehy * ▪
London, England

Frederic J. Wellhauser †
Toronto, Canada

* Audit Committee
† Compensation Committee
• Environment, Health and Safety Committee
▪ Nominating Committee

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Chairman

Frederic J. Wellhauser
President & Chief Executive Officer

Patrice Merrin Best
Executive Vice President
& Chief Operating Officer

Barry Hatt
Senior Vice President, Oil & Gas Operations

Samuel W. Ingram
Senior Vice President, General Counsel
& Corporate Secretary

Dennis G. Maschmeyer
Senior Vice President, Metals Operations

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In Memoriam

Vladimir Nicolaus Mackiw 1923 – 2001
F.C.I.C., F.C.A.C., P. Eng.

Jules Garnier Prize (co-recipient), *Metallurgical Society of France, 1966.*
Inco Platinum Medal, *Canadian Institute of Mining & Metallurgy, 1966.*
R.S. Jane Memorial Award, *Chemical Institute of Canada, 1967.*
Airey Award (Noranda), *Metallurgical Society of the Canadian Institute of Mining & Metallurgy, 1972.*
Honorary Degree of Doctor of Science, *The University of Alberta, 1976.*
Gold Medal, *The Institution of Mining & Metallurgy, London, United Kingdom, 1977.*
Shevchenko Gold Medal *of the Ukrainian Canadian Congress, 1982.*
CRMA R&D Management Award, *Canadian Research Management Association, 1990.*
James Douglas Gold Medal Award, *American institute of Mining, Metallurgical and Petroleum Engineers, 1991.*
American Society of Metals (ASM) International, *Canada Council Leadership Award 1990-1991, Lecturer to ASM Canadian Chapters.*

Sherritt is proud to honour the memory of Dr. Vladimir N. Mackiw, prominent scientist, esteemed colleague and devoted friend, who passed away on January 31, 2001. Dr. Mackiw came to Canada in 1948 and became a Canadian citizen in 1953. He joined Sherritt in 1949 as a research chemist, and retired in 1988 as Executive Vice President. Dr. Mackiw acted as a consultant to the Company until his passing, an association with Sherritt lasting more than half a century.

Dr. Mackiw received worldwide recognition for his pioneering work in hydrometallurgical science and for the successful application of scientific research and development in the areas of industrial materials and chemicals. His work resulted in the commercial viability of pressure hydrometallurgical process technology as an economical and environmentally friendly alternative to conventional refining methods for nickel, cobalt, copper, zinc, refractory gold ores and uranium. He also developed businesses in fertilizers, chemicals, coinage materials, specialty metals and specialty powders, which have wide application in industry, particularly aerospace.

Dr. Mackiw was awarded an honorary doctorate by the University of Alberta in 1976. He held more than 45 patents and was the recipient of numerous awards and honours from professional associations in Canada, Great Britain, the United States and France. Dr. Mackiw was a primary driver for the licensing of many of the technologies developed at Sherritt, thereby spreading their benefits around the globe and contributing to export earnings and job creation for Canada.

Throughout his life, Dr. Mackiw maintained close ties with professional and cultural associations of his native Ukraine and participated extensively in the social affairs of the Ukrainian Canadian community. His dedication to his profession and community were an inspiration to all.

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